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TAGS: [ECON](#) [ETRD](#) [ENRG](#) [JA](#)  
SUBJECT: METI SENIOR VICE MINISTER YAMAMOTO DISCUSSES  
ECONOMIC AND TRADE ISSUES WITH AMBASSADOR

Classified By: Ambassador J. Thomas Schieffer, Reason 1.4(b)(d)

11. (C) Summary: Senior METI Vice Minister and Diet Member Kozo Yamamoto told the Ambassador he understood the U.S. was not fully satisfied with the outcome of triangular mergers but METI had tried its best and would be open to changing the system in the future. He thought conclusion of a U.S.-Korea FTA would spur greater interest in a U.S. Japan Pact. Yamamoto will visit the U.S. in early May for a legislative exchange and was seeking meetings with U.S. economic and energy policymakers. He expressed hope that forthcoming changes to Japan's agricultural policies to provide direct cash support for farmers eventually would give Japanese leaders greater flexibility in international trade policy. He conceded Japan was experiencing "reform fatigue" but insisted continued reform was necessary to maintain long-term economic growth. End Summary.

12. (C) METI Vice Minister Kozo Yamamoto hosted the Ambassador to lunch on April 2 with the primary purpose of thanking him for U.S. support for Nobuo Tanaka as the new executive director of the International Energy Agency. The Ambassador told Yamamoto that several USG officials, including members of the Vice President's office, had played key roles in building U.S. support for Tanaka. The United States welcomed qualified Japanese candidates to head international organizations and was confident Tanaka would advance our mutual energy interests. The Ambassador hoped Tanaka would find a qualified American to serve as one of his deputies and Yamamoto expressed confidence that would be the case.

Bush-Abe Summit  
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13. (C) The Vice Minister said he looked forward to the success of the upcoming summit between President Bush and Prime Minister Abe but he wished it had taken place sooner. The Ambassador responded that the first meeting of the two leaders in Hanoi in November had been very positive and the upcoming summit, with likely meetings at both Camp David and in the Oval Office, would demonstrate to the Japanese people that the bilateral relationship is strong. This would put to rest recent chatter in the Japanese press that there were problems with the alliance. Both President and Mrs. Bush, he continued, were looking forward to seeing Prime Minister and Mrs. Abe again and the President hoped the two leaders could establish a relationship as close as his relationship with former Prime Minister Koizumi.

Yamamoto's Visit to U.S.  
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¶4. (C) The Vice Minister said he would also be traveling to Washington in early May for an exchange program with U.S. Congressional members. The Ambassador welcomed that visit and encouraged the Vice Minister to use the opportunity to build contacts on both sides of the aisle. Yamamoto expressed an interest in meeting with Deputy Secretary of State Negroponte noting that, until now, most of his meeting requests were with economic and energy officials such as Secretary of Energy Bodman and Federal Reserve Chairman

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Bernanke.

#### Triangular Mergers

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¶5. (C) Yamamoto acknowledged that the U.S. was less than completely satisfied with the outcome of the triangular merger debate but insisted METI had tried to obtain maximum flexibility in the new regulations within the context of Japan's current tax system. If changes were necessary to further promote inward FDI in the future, Japan was ready to make them. The Ambassador thanked Yamamoto for METI's efforts and acknowledged that dramatic departure from long standing practice was often difficult for corporate managers. The same thing happened in the United States in the 1980s but eventually shareholders forced management to change. The United States hoped something similar would happen in Japan. Ultimately, the best outcome would come from market forces not government regulation.

#### Energy issues

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¶6. (C) Yamamoto asked for the Ambassador's view on current world energy markets. The Ambassador noted that the world energy market was entering a new phase in which, for the first time, there might be no "swing producer" that could

effect global supply. This could lead to unfortunate price spikes, which were not good for either producers or consumers. One positive outcome of this tightening of energy markets was growing interest in alternative fuels, which the Ambassador observed would be crucial to meeting growing demand especially as large consumer countries such as China and India increased per capita consumption.

¶7. (C) Another development was renewed interest in nuclear power, something "unthinkable" as recently as 2001. The U.S. Energy Act of 2005 established a policy framework that encouraged the development of alternatives to fossil fuels both for transportation and power generation, an outcome not yet well appreciated in the United States. Japan's experience as a leader in civilian nuclear power was also now attracting interest from U.S. energy companies. Last year's sale of Westinghouse to Toshiba was a positive step in closer U.S.-Japanese cooperation in this area. Yamamoto agreed. He described his recent visit to Vietnam during which he discussed the possible sale of a Japanese nuclear power generating plant.

#### Trade, Agriculture and Economic Reform

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¶8. (C) The Vice Minister asked about the progress of negotiations on the U.S.-Korea FTA. The Ambassador said he understood negotiations were continuing. (Note: The discussion took place before the April 2 announcement of an agreement in Seoul.) The Ambassador then asked if the United States and Korea were able to reach an agreement how did the Vice Minister see the impact in Japan? Yamamoto said it would certainly spur Japan to consider its own FTA with the U.S. In this regard, Yamamoto noted that the Japanese government planned to begin implementing a new agricultural policy in May or June 2007, which would begin to shift support for farmers away from protectionism and price supports to direct payments to farmers. Although there were some concerns, mostly related to plot size and levels of

payments, that could stir resistance to the new system, the overall thrust would be to leave it to the farmer to make his own business decisions within the context of a predictable level of financial support.

¶9. (C) The Ambassador wondered if the average Japanese consumer was aware of how much he was now paying in high food prices to support Japanese farmers. Most Japanese do, Yamamoto conceded, but Japanese consumers had concerns about taste and food security that made them willing to accept the high cost of food. The Ambassador expressed understanding of Japan's concern with food security but wondered whether the Japanese demographics made it impractical to continue to try to keep out imports. A better way to ensure Japan's long-term food security would be to open up its market to agricultural producers such as the United States, Canada and Australia, which shared Japan's democratic values. Yamamoto said the Japanese government was hoping that the demographic impact would ultimately solve the problem.

¶10. (C) Finally, the Ambassador asked if Yamamoto thought Japan was experiencing "reform fatigue," in the post-Koizumi period. Yamamoto conceded that might be the case. But, he asserted Japan had no choice but to keep reforming if it wanted to maintain economic vitality. Another factor in the apparent shift in focus from Koizumi to Abe was Prime Minister Abe's greater interest in security and education issues. Abe belonged to a more ideological wing of the ruling party dating at least as far back as his grandfather, former Prime Minister Kishi, with more interest in social, educational and security issues. This was opposed to the more mainstream factions, of which Yamamoto is a member, which is more interested in bread and butter economic and employment issues. The Ambassador concluded that the United States welcomed Japan as a stronger, more equal partner on security issues but it also believed that there were opportunities for greater economic integration between our two countries. This would lead to faster economic growth and more prosperity in both Japan and the United States.  
SCHIEFFER